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Telephony

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EUROPE ZOOMS WHILE THE WORLD WATCHES Western

Europe increases spending as the rest of the world cuts back

PATRICK TARGETS CAPS FOR JULY

He wants action on AT&T plan, more study for LECs

NEW YORK PSC OPENS LOCAL LOOP

New York Tel gets pricing flexibility in return

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Telephony

INTEGRATING VOICE & DATA COMMUNICATIONS

With a projected increase of $3.2 billion this year, the countries of Western Europe are zooming in on telecommunications improvement and growth. Cover art by Jim Colao/David Marine; photography by Kenji Kerins

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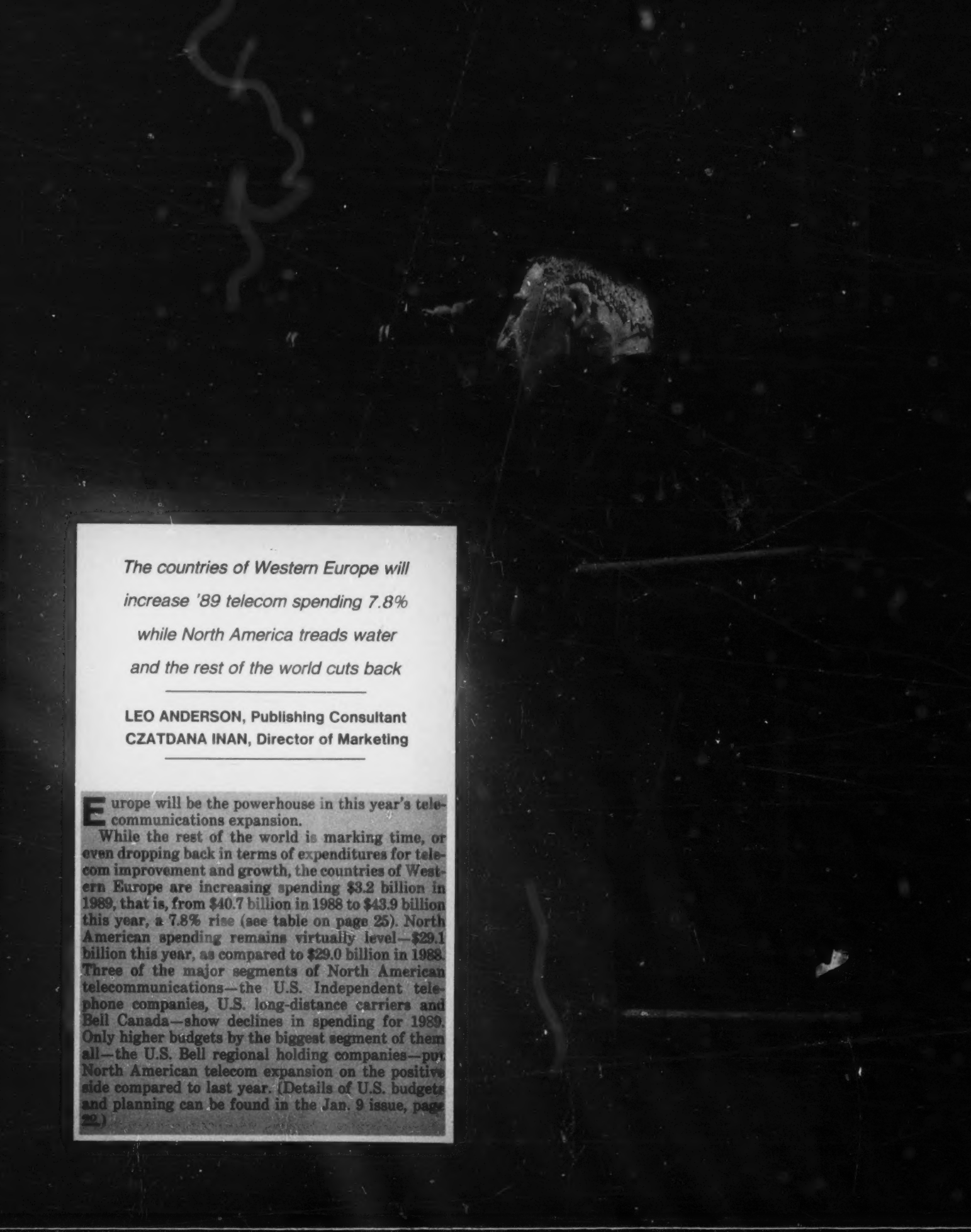
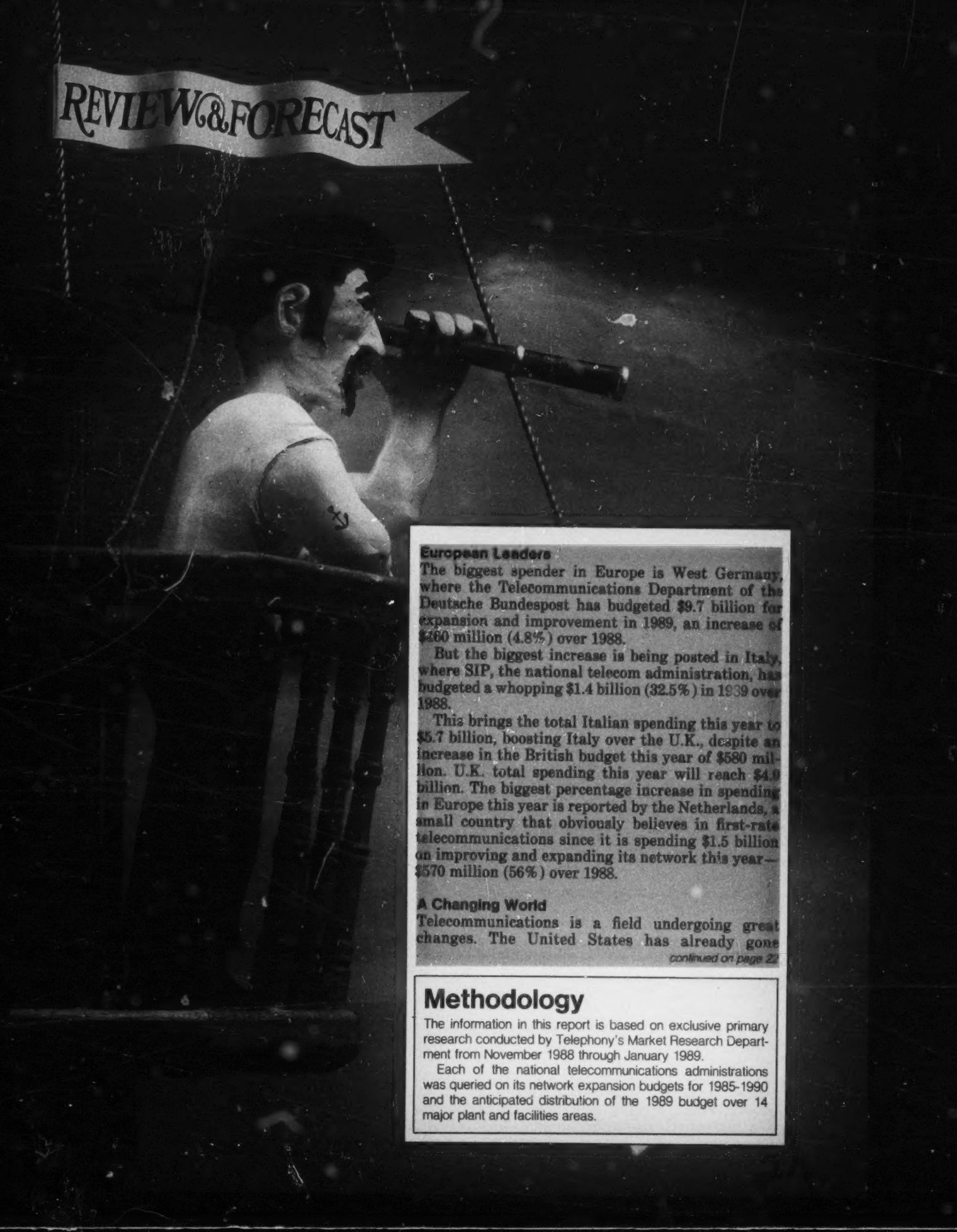


The countries of Western Europe will increase '89 telecom spending 7.8% while North America treads water and the rest of the world cuts back

LEO ANDERSON, Publishing Consultant
CZATDANA INAN, Director of Marketing

Europe will be the powerhouse in this year's telecommunications expansion.

While the rest of the world is marking time, or even dropping back in terms of expenditures for telecom improvement and growth, the countries of Western Europe are increasing spending $3.2 billion in 1989, that is, from $40.7 billion in 1988 to $43.9 billion this year, a 7.8% rise (see table on page 25). North American spending remains virtually level—$29.1 billion this year, as compared to $29.0 billion in 1988. Three of the major segments of North American telecommunications—the U.S. Independent telephone companies, U.S. long-distance carriers and Bell Canada—show declines in spending for 1989. Only higher budgets by the biggest segment of them all—the U.S. Bell regional holding companies—put North American telecom expansion on the positive side compared to last year. (Details of U.S. budgets and planning can be found in the Jan. 9 issue, page 22.)



European Leaders

The biggest spender in Europe is West Germany, where the Telecommunications Department of the Deutsche Bundespost has budgeted $9.7 billion for expansion and improvement in 1989, an increase of $460 million (4.8%) over 1988.

But the biggest increase is being posted in Italy, where SIP, the national telecom administration, has budgeted a whopping $1.4 billion (32.5%) in 1989 over 1988.

This brings the total Italian spending this year to $5.7 billion, boosting Italy over the U.K., despite an increase in the British budget this year of $580 million. U.K. total spending this year will reach $4.9 billion. The biggest percentage increase in spending in Europe this year is reported by the Netherlands, a small country that obviously believes in first-rate telecommunications since it is spending $1.5 billion on improving and expanding its network this year—$570 million (56%) over 1988.

A Changing World

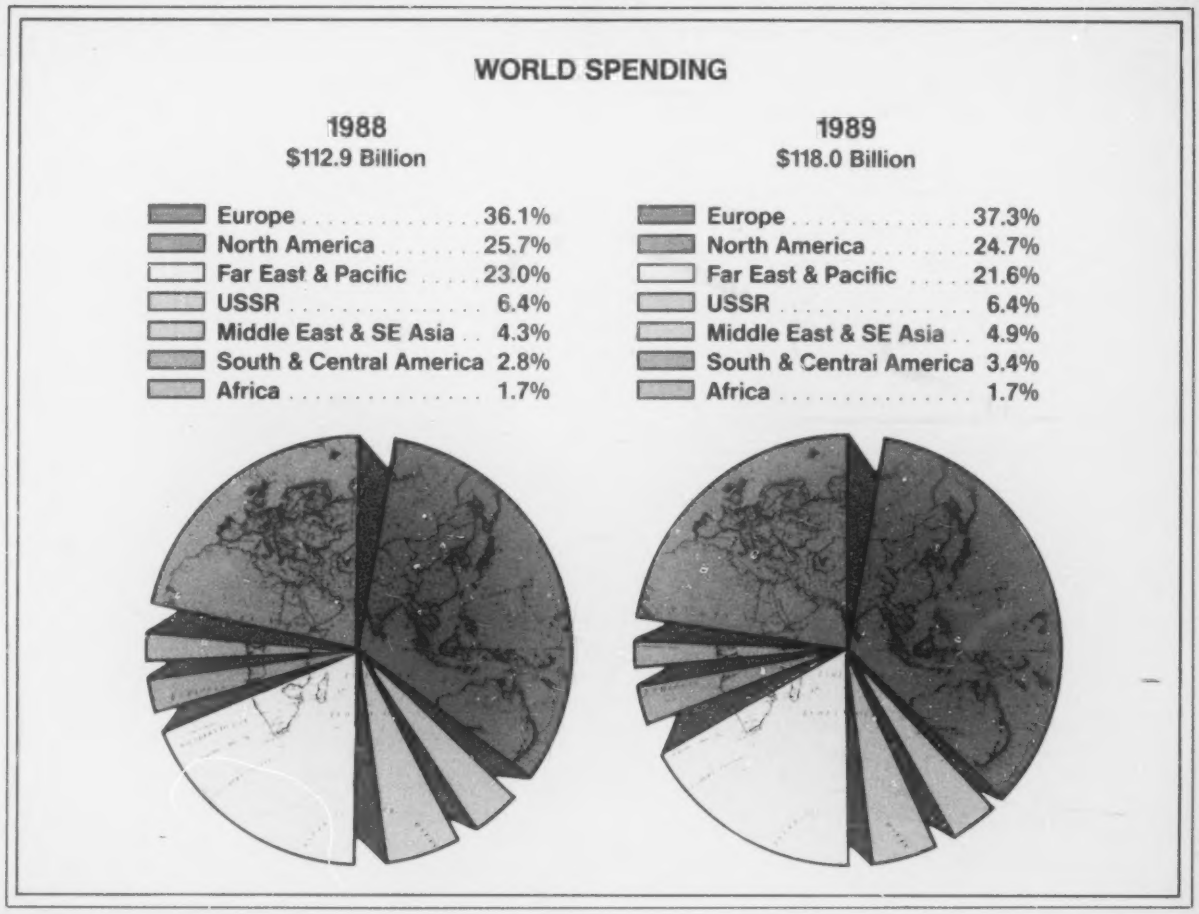
Telecommunications is a field undergoing great changes. The United States has already gone

continued on page 22

Methodology

The information in this report is based on exclusive primary research conducted by Telephony's Market Research Department from November 1988 through January 1989.

Each of the national telecommunications administrations was queried on its network expansion budgets for 1985-1990 and the anticipated distribution of the 1989 budget over 14 major plant and facilities areas.



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through most of the change and is settling down.

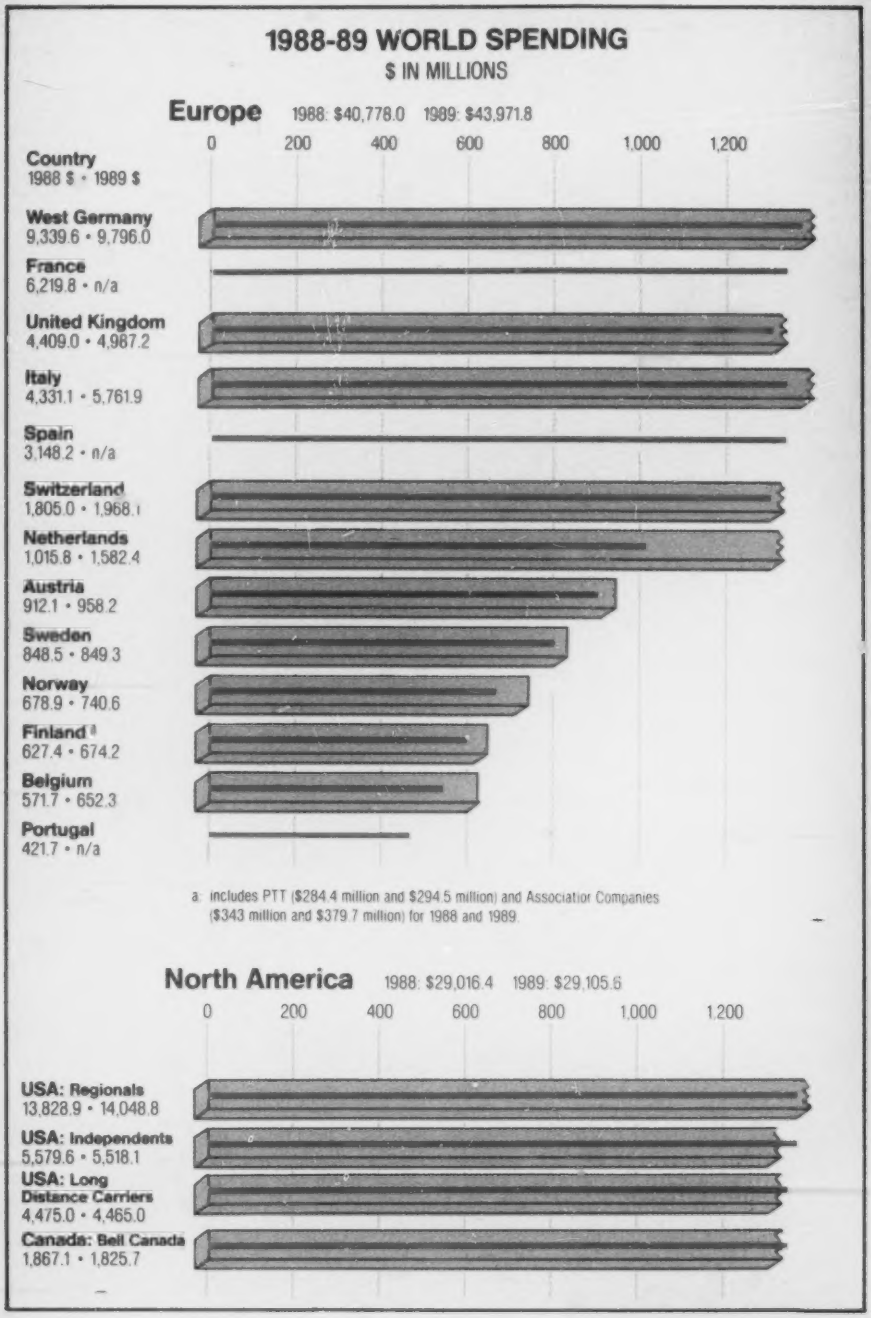
Europe, on the other hand, is heating up and approaching the boiling point. Since change costs money—lots of money—that likely accounts for the increased spending in Europe this year. Three forces are driving the change in Europe. The first is made up of one cause and two effects. The cause: Liberalization, the removal, to a large degree, of telecommunications from strict government regulation and control. The effects: New competition to the old-line service providers and reorganization of those administrations to meet the competitive challenge. Comments from telecom administrators participating in this survey report indicate what is happening (beginning on page 28).

In West Germany it is predicted that a government-mandated "restructuring" will take place in 1989 so that from mid-year onward "competition is to be the rule and monopoly the exception." In Great Britain, site of the first extensive liberalization in Europe, British Telecom says, "We pay particular attention to developments in regulatory and competitive policies." In Belgium it is expected that the first steps will be taken this year in a "reform" that will "restrict monopoly to the infrastructure and a limited number of basic services," and that also "will adapt the present PTT to its new competitive environment." The Swiss PTT says all of Europe, including Switzerland, is "heading toward a fully competitive telecom market," and the PTT aims to so satisfy the needs of customers that it will "remain the leading service provider and supplier of telecom equipment."

As 1989 dawned, the Netherlands PTT was reorganized into a central holding company and several separate companies. One was the PTT telecom company, which, says its president, has undergone "an internal restructuring, enabling us to address the market with increased efficiency and flexibility." Finland, which has 58 local telephone companies in addition to the government telecom administration, has granted competitive concessions to the local companies and is further encouraging competition by permitting a data transmission company owned by the local telcos to compete with the Finnish PTT's data transmission service. At the same time, a PTT-owned company is competing in local telecommunications.

Digitalization and ISDN

The other two driving forces powering European telecom expansion are digitalization of the network and ISDN. All European telecom administrations



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are moving forward on digitalization, each at its own pace, and most have begun experimental ISDN offerings or announced plans to do so. Sweden has been committed to digitalization since the beginning of the 1980s, says the Swedish Telecommunications Administration, and "the time has now come to take full advantage of the digital network . . . to facilitate the introduction of ISDN at low cost." Jutland Telephone, one of four companies that serves Denmark, will begin an ISDN test this year, which will involve three of its exchanges, as well as exchanges of the other Danish telcos and connections with Sweden.

The Norwegian Telecommunications Administration expects to have 32% of its subscribers connected to digital exchanges by the end of this year; 50% by 1993. Pilot ISDN projects at NTA are expected to turn into regular service beginning in 1992. In Fin-

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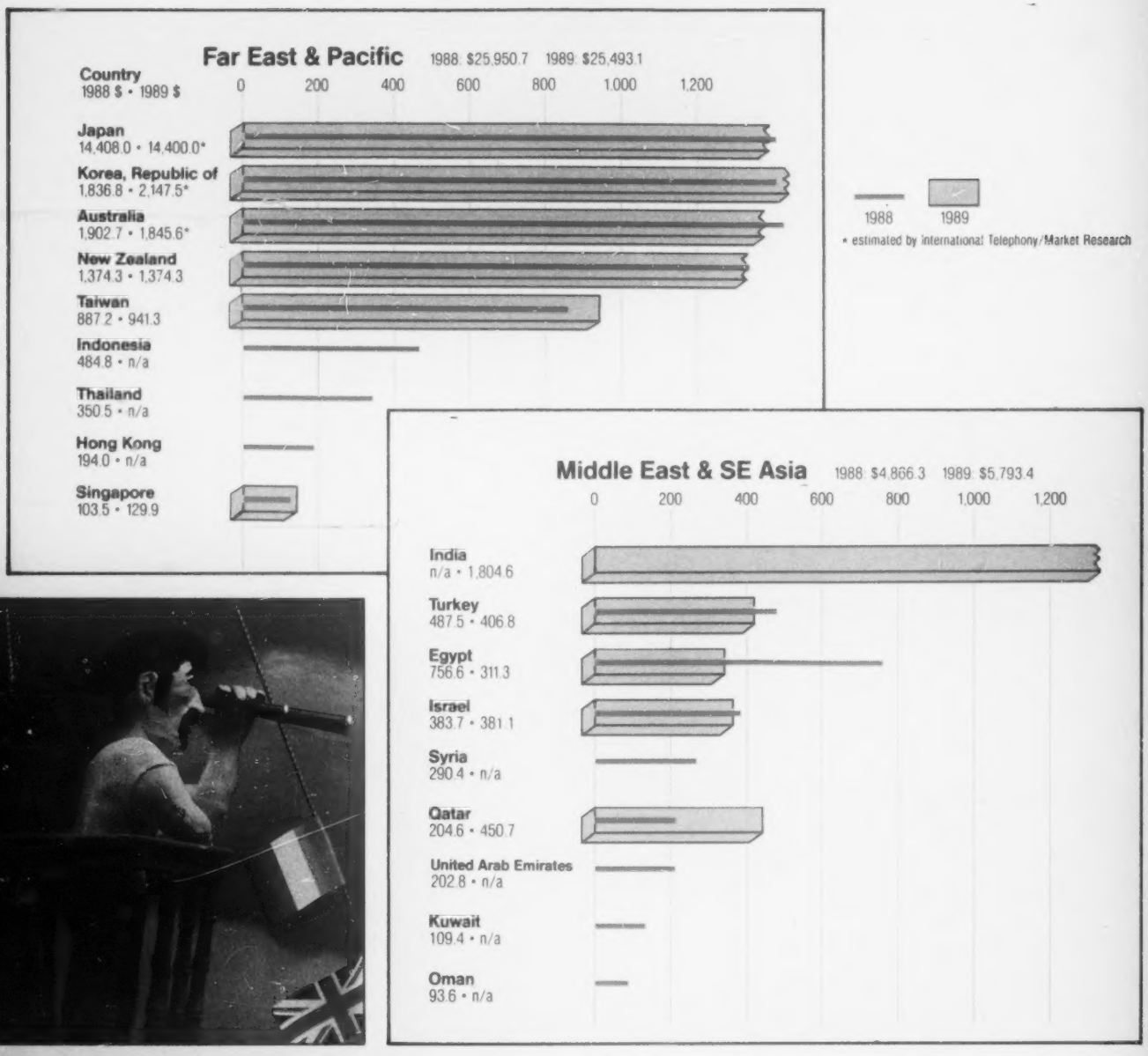
1988-89 WORLD SPENDING

$ IN MILLIONS



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land, also, an ISDN trial was launched in 1988. So far as digitalization goes, it is expected that nearly 100% of the trunk network will be digitalized by 1995.

In France, the network is already more than 65% digital, and ISDN has been in commercial operation more than a year, reports France Telecom. It now has 600 paying ISDN customers in Paris and its suburbs, and it expects to have nationwide deployment by 1990, FT says. In Italy, SIP, the telecom administrative body, says digitalization is a primary objective for the network. SIP adds, "Digital switches will replace electromechanical switches in 45% of the central offices by 1992 and the rest by the year 2000."

In addition to spending a lot of money on new technology, SIP is paying a lot of attention to POTS in its goals, including increasing the number of subscribers to 42 per 100 population, eliminating held orders so as to arrive at a point where service orders are cleared in two weeks, and completing 95% of repairs within a day of trouble reports. These goals are to be achieved by 1992 under the SIP four-year plan. The termination of that plan, of course, coincides with the date on which all trade barriers within

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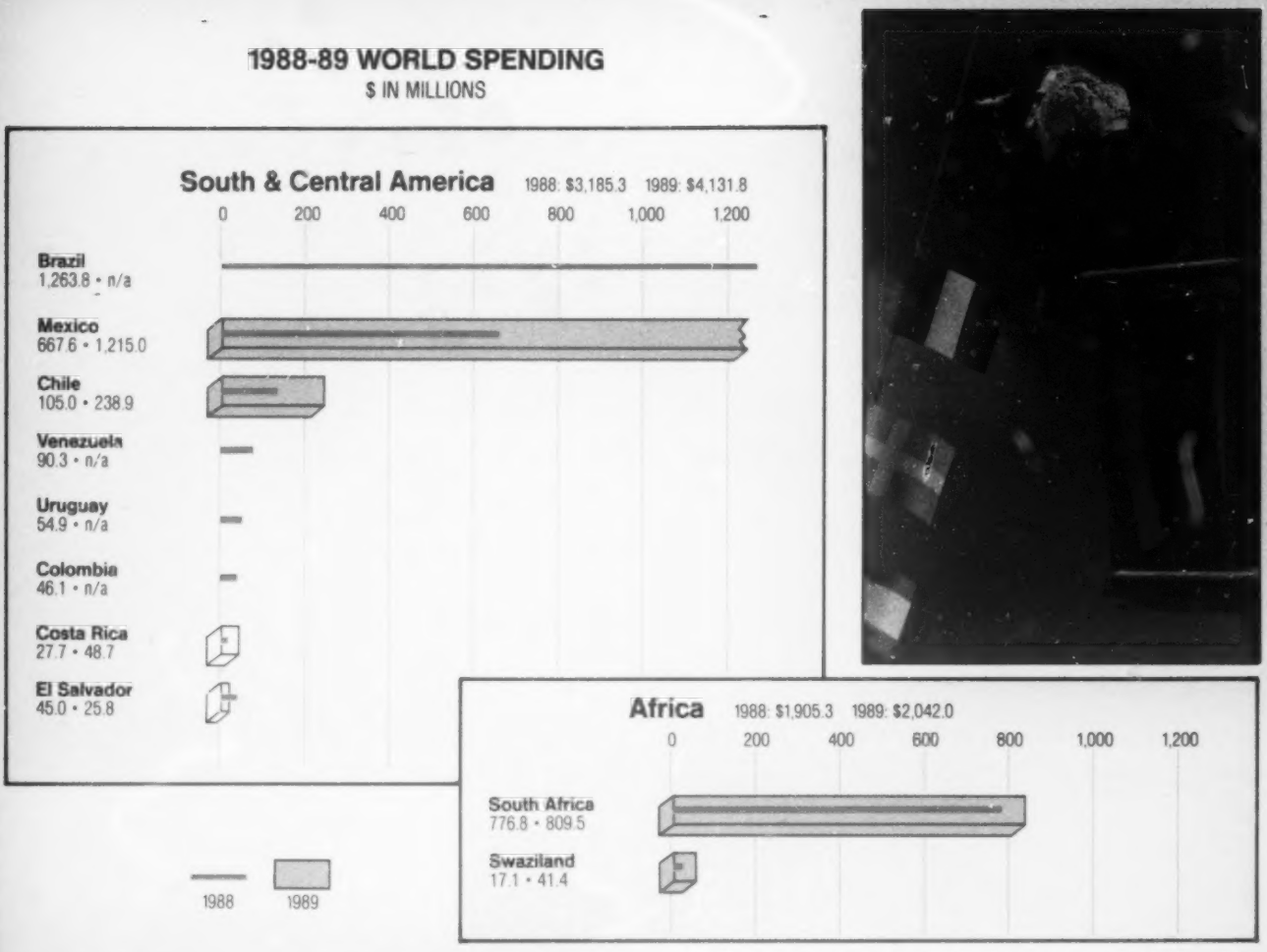

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the European Economic Community are to be eliminated.

Several other European PTTs also plan to have their systems in tip-top shape by that date, apparently feeling that a region without trade barriers should be without communications barriers as well.

Asian Hot Spots

Nippon Telegraph & Telephone of Japan towers above other Asian telecom administrations with its $14.4 billion network expansion and improvement budget for 1989, which is virtually the same as last year's. NTT has had an ISDN test running since last spring, providing 64 kb/s service, and it plans 1.5 Mb/s service to 28 metropolitan areas this spring. NTT, formerly a government-owned entity, has now been a private company for five years. In that time it has become one of the most advanced telecom systems in the world.

Cause and effect? Who knows?

An up-and-coming telecom leader in Asia is the Republic of Korea, whose $2.1 billion 1989 telecom budget represents a 16% increase over 1988. The Korean Telecommunication Authority is wholly owned by the government but will begin to go public this year through sale of 20% of its stock. It is expected that eventually KTA will be 50% publicly held. A technical highlight for the company this year will be the scheduled completion of the first trans-Pacific FO cable system, a project in which KTA has been participating, along with the telecom authorities of Japan, Hong Kong and the People's Republic of China, as well as AT&T. The Republic of Korea is one telecommunications success story, thanks to a booming economy, in what is probably still considered a "developing country."

There are other successes in that category. Turkey is one. Here's a country where telephone density five years ago was 3.5 per 100 people, telex exchange lines numbered 8220 and more than 70% of all villages were without phones. By 1988 telephone density and telex lines had nearly trebled, and all the villages had telephone links. The aim is to have 25 lines per 100 population by 1992, and the Turkish PTT is budgeting to do it.

For 1989, much of the international telecommunications spotlight will remain focused on Europe, where the 1992 single-market deadline looms large. Our research indicates, however, that there are many other smaller telecom stories unfolding that may be on center stage in a year's time. ■